

Al Yusr Saudi Riyal Morabaha Fund
Managed by Alawwal Invest Company

FINANCIAL STATEMENTS

31 DECEMBER 2017



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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF AL YUSR SAUDI RIYAL MORABAHA FUND (Managed by Alawwal Invest Company)

Opinion

We have audited the financial statements of Al Yusr SAR Morabaha Fund (the "Fund") managed by Alawwal Invest Company (the "Fund Manager"), which comprise the balance sheet as at 31 December 2017, and the statement of operations, statement of cash flows and statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Fund's Board of Directors are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF
AL YUSR SAUDI RIYAL MORABAHA FUND (Managed by Alawwal Invest Company) (continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Fund's Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young


Rashid S. AlRashoud
Certified Public Accountant
License No. (366)



Riyadh: 15 Rajab 1439H
(01 April 2018)

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

BALANCE SHEET

As at 31 December 2017

	Notes	2017 SR	2016 SR
ASSETS			
Bank balance		4,091,718	167,106,060
Trading Investment	4	41,498,025	70,082,506
Morabaha placements	5	306,000,000	216,000,000
Held to maturity investments	6	118,452,800	119,766,100
Accrued income		896,950	3,434,135
Receivables and prepayments	7	1,318,844	1,539,539
TOTAL ASSETS		472,258,337	577,928,340
LIABILITY			
Accrued expenses		6,469	72,121
TOTAL LIABILITY		6,469	72,121
NET ASSETS		472,251,868	577,856,219
Units in issue		34,712,697	43,182,435
Per unit value		13.6046	13.3817

The accompanying notes 1 to 13 form an integral part of these financial statements.

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

STATEMENT OF OPERATIONS

Year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
INVESTMENT INCOME			
Special commission income		8,858,283	18,278,081
Trading income	8	2,635,448	82,506
		11,493,731	18,360,587
EXPENSES			
Management fees	10	(2,606,949)	(3,171,254)
Other expenses	9,10	(268,414)	(240,503)
		(2,875,363)	(3,411,757)
NET INCOME FOR THE YEAR		8,618,368	14,948,830

The accompanying notes 1 to 13 form an integral part of these financial statements.

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	2017 SR	2016 SR
OPERATING ACTIVITIES		
Net income for the year	8,618,368	14,948,830
Adjustment for:		
Unrealised gains on trading investments	(557,520)	(82,506)
	8,060,848	14,866,324
Changes in operating assets and liability:		
Morabaha placements	(90,000,000)	178,000,000
Held to maturity investments	1,313,300	11,026,350
Trading Investment	29,142,001	(70,000,000)
Accrued income	2,537,185	(1,719,617)
Receivables and prepayments	220,695	(787,622)
Accrued expenses	(65,652)	72,121
Net cash (used in) from operating activities	(48,791,623)	131,457,556
FINANCING ACTIVITIES		
Proceeds from units sold	193,236,125	794,602,760
Value of units redeemed	(307,458,844)	(704,324,134)
Net cash (used in) from financing activities	(114,222,719)	90,278,626
(DECREASE) INCREASE IN BANK BALANCE	(163,014,342)	221,736,182
Bank balance at the beginning of the year	167,106,060	(54,630,122)
BANK BALANCE AT THE END OF THE YEAR	4,091,718	167,106,060
<i>Operational cash flows from special commission income</i>		
Special commission income received	11,395,468	16,558,463

The accompanying notes 1 to 13 form an integral part of these financial statements.

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2017

	2017 SR	2016 SR
NET ASSET VALUE AT THE BEGINNING OF THE YEAR	577,856,219	472,628,763
NET CHANGE FROM OPERATIONS		
Net income for the year	8,618,368	14,948,830
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	193,236,125	794,602,760
Value of units redeemed	(307,458,844)	(704,324,134)
Net change from unit transactions	(114,222,719)	90,278,626
NET ASSET VALUE AT THE END OF THE YEAR	472,251,868	577,856,219

UNIT TRANSACTIONS

Transactions in units for the year ended 31 December are summarised as follows:

	2017 Units	2016 Units
UNITS AT THE BEGINNING OF THE YEAR	43,182,435	36,159,581
Units sold	14,380,114	60,295,298
Units redeemed	(22,849,852)	(53,272,444)
Net (decrease) increase in units	(8,469,738)	7,022,854
UNITS AT THE END OF THE YEAR	34,712,697	43,182,435

The accompanying notes 1 to 13 form an integral part of these financial statements.

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

1 GENERAL

Al Yusr Saudi Riyal Morabaha Fund (the “Fund”) is an open-ended fund created by an agreement between Alawwal Invest Company (the “Fund Manager”), a subsidiary of Alawwal Bank (the “Bank”) and investors in the Fund (the “Unitholders”)

Al-Yusr SAR Morabaha Fund	
Commencement Date	26 December 2001
Latest Governing T&C Date	31 December 2017
Category	Sharia'ah compliant
Objective	Capital preservation & appreciation
Allowed Investment Channels	Morabaha deposits
	Sukuk
	Investment products
	Morabaha funds

The books and records of the Fund are maintained in Saudi Riyals (SR).

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) detailing requirements for all investments funds operating within the Kingdom of Saudi Arabia and published by the Capital Market Authority (the “CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006). The Regulations were further amended on 16 Sha’aban 1437H (corresponding to 23 May 2016) (the “Amended Regulations”). The Fund Manager believes that the Amended Regulations was effective since 6 Safar 1438H (corresponding to 06 November 2016).

3 SIGNIFICANT ACCOUNTING POLICIES

New accounting framework

According to the transition plan to International Accounting Standards approved by the board of Saudi Organization for Certified Public Accountants (SOCPA), effective 1 January 2018, the Fund’s financial statements will be prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by SOCPA. Upon IFRS adoption, the Fund will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards which require the Fund to analyze the impacts and incorporate certain adjustments on the comparative figures and its opening balances.

These financial statements have been prepared in accordance with the accounting standard generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments.

Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise bank balance and money market placements with an original maturity of less than ninety days.

Investment valuation

Investments that are bought with the intention of being held to maturity are carried at cost (adjusted for any premium or discount on an effective yield basis), less permanent decline in value.

Trading investments are valued at their quoted bid market price as at the balance sheet date. Unrealised gains and losses on the revaluation of investments and realised gains and losses on the disposal of investments are recognised in the statement of operations.

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment valuation (continued)

Morabaha placements are carried at cost less provision for any uncollectable amounts. Accrued special commission income as at the year end, is disclosed separately.

Investment transactions

Investment transactions are accounted for as of the trade date.

Zakat and income tax

Zakat and income tax are considered to be the obligation of the Unitholders and are not provided for in these financial statements.

Revenue recognition

Special commission income is recognised on an effective yield basis. Realised gains and losses on investments sold are determined on a weighted average cost basis.

Expenses

Expenses are recognised based on the accrual method.

4 TRADING INVESTMENTS

Investments comprise the following exposures as at 31 December:

<i>Mutual Fund</i>	<i>2017</i>		<i>2016</i>	
	<i>Cost SR</i>	<i>Market value SR</i>	<i>Cost SR</i>	<i>Market value SR</i>
International Trade Finance Fund (Sunbullah SAR) – Samba Capital	40,863,707	41,498,025	-	-
Falcom SAR Morabaha Fund	-	-	70,000,000	70,082,506
Total	40,863,707	41,498,025	70,000,000	70,082,506

5 MORABAHA PLACEMENTS

	<i>2017 SR</i>	<i>2016 SR</i>
Placements with the Bank (note 10)	90,000,000	65,000,000
Placements with other banks	216,000,000	151,000,000
Total	306,000,000	216,000,000

The maturities of morabaha placements from original maturities are set out below:

Maturity between 1 and 3 months	105,000,000	-
Maturity between 3 and 6 months	140,000,000	50,000,000
Maturity above 6 months	61,000,000	166,000,000
Total	306,000,000	216,000,000

The effective special commission rate on Morabaha placements as at year end is 1.542% (2016: 2.549%).

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

6 HELD TO MATURITY INVESTMENTS

<i>Debt securities</i>	2017 SR	2016 SR
Almarai Sukuk IV	49,000,000	49,000,000
Al Hilal Bank Sukuk	35,625,000	35,625,000
Arabian Aramco Total Services Company Sukuk (SATORP)	18,827,800	20,141,100
Saudi British Bank (SABB) Sukuk – III	15,000,000	15,000,000
Total	118,452,800	119,766,100

The contractual maturities of the investments are set out below:

	2017 SR	2016 SR
Maturity between 1 to 5 years	118,452,800	119,766,100

The effective special commission rate on investments as at year end is 4.265% (2016: 4.417 %).

Investments comprise credit exposures equivalent to investment grade ratings under Moody's rating methodology except for Arabian Aramco Total Services Company and Almarai Sukuk IV.

7 RECEIVABLES AND PREPAYMENTS

	2017 SR	2016 SR
Profit receivable on morabahas	979,695	979,687
Premium Paid	309,075	510,108
Brokerage Paid On Sukuk	30,074	49,744
Total	1,318,844	1,539,539

8 TRADING INCOME

	2017 SR	2016 SR
Realised gains	2,077,928	-
Unrealised gains	557,520	82,506
Total	2,635,448	82,506

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

9 OTHER EXPENSES

	2017 SR	2016 SR
Amortized expenses	220,703	192,065
Audit fees	30,000	30,000
CMA monitoring fees	7,500	7,500
Board member fees	5,211	5,938
Tadawul fees	5,000	5,000
Total	268,414	240,503

10 TRANSACTIONS WITH RELATED PARTIES

The Fund is managed and administered by the Fund Manager. For these services the Fund pays a management fee of 0.50% per annum calculated on its net assets under management at each valuation date.

Other expenses paid by the Fund Manager on behalf of the Fund are charged to the Fund.

In the normal course of business the Fund places Morabaha investments and borrows from the Bank at market prevailing market rates.

The Bank acts as the Fund's banker and the Fund Manager acts as the custodian to the Fund's investment

During the period the Fund has placed special commission bearing Morabaha placements with the Bank.

All related party balances and transactions are disclosed in the financial statements and related note disclosures.

The Unitholders' account at 31 December included units held as follows:

	2017 Units	2016 Units
Held by other Funds managed by the Fund Manager	995,702	1,231,670
Total	995,702	1,231,670

11 RISK MANAGEMENT

Special commission rate risk

Special commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of the financial instruments.

The Fund is subject to special commission rate risk on its commission bearing assets and liability, including Morabaha placements. The sensitivity of the income is the effect of assumed changes in commission rates, with all other variables held constant, on the Fund's income for the year, based on the floating rate financial assets held at 31 December 2017. The following table sets out the approximate annual aggregate impact on net income by hypothetical changes in the weighted average special commission rates of the floating rate financial assets at 31 December:

	2017		2016	
	<i>Change in basis points</i>	<i>Impact on net income SR</i>	<i>Change in basis points</i>	<i>Impact on net income SR</i>
<i>Special commission rate</i>	10	118,453	10	119,766
	50	592,264	50	598,831
	100	1,184,528	100	1,197,661

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

11 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

The Fund's terms and conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions – however the fund is allowed to borrow in order to satisfy redemptions. The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that funds are available to meet commitments as they arise.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund views the Saudi Riyal as its functional currency.

As the Fund's investments are denominated in its functional currency, the Fund is not subject to significant currency risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk for its investment portfolio, bank balance and receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and by dealing with only reputable counterparties.

The table below shows the maximum exposure to credit risk for the components of the balance sheet.

	2017	2016
	SR	SR
Bank balance	4,091,718	167,106,060
Trading Investment	41,498,025	70,082,506
Morabaha placements	306,000,000	201,000,000
Held to maturity investments	118,452,800	119,766,100
Accrued income	896,950	3,434,135
<i>Total exposure to credit risk</i>	<u>470,939,493</u>	<u>561,388,801</u>

The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties.

Al Yusr Saudi Riyal Morabaha Fund (Managed by Alawwal Invest Fund)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

12 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of bank balance and investments. Financial liability consists of bank overdraft.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. For investments traded in an active market, fair value is determined by reference to quoted market bid prices or net asset values as declared by the Fund Manager.

The fair values of financial instruments, which are otherwise carried at amortised cost (held to maturity investment), are set out below:

	2017 SR	2016 SR
Held to maturity investments	<u>118,452,800</u>	<u>119,766,100</u>

As per the Fund Manager's estimate, fair value of other financial instruments approximates the carrying value on account of the short term nature of these assets.

13 LAST VALUATION DAY

The last valuation day of the year was 31 December 2017 (2016: 31 December 2016).